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Before the  
FEDERAL COMMUNICATIONS COMMISSION

SEP. 14 1993

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

In the Matter of

Implementation of Sections of  
the Cable Television Consumer  
Protection and Competition Act  
of 1992:

Rate Regulation  
To the Commission:

\* MM Docket No. 93-215  
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REPLY COMMENTS

BLADE COMMUNICATIONS, INC.

Fritz Byers  
General Counsel  
Blade Communications, Inc.  
The Spitzer Building, Suite 824  
Toledo, Ohio 43604  
(419) 241-8013

September 14, 1993

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REPLY COMMENTS

Blade Communications, Inc., ("Blade") submits these Reply Comments to address the question of excess acquisition costs and whether, and under what circumstances, excess acquisition costs ought be permitted to be included in a cable operator's ratebase.

Blade's position on this question is influenced by two of its fundamental operating principles and practices as a cable operator.<sup>1/</sup> First, from the start of its operations in 1966 to the present, Blade has acted responsibly in providing high quality service to its customers. It has consistently and ardently practiced rate restraint, a fact demonstrated by, among other things, Blade's determination that its existing service

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<sup>1/</sup> Blade provides cable television service through three subsidiaries: Buckeye Cablevision, Inc., serving approximately 120,000 subscribers in Toledo, Ohio and vicinity; Erie County Cablevision, Inc., serving approximately 19,000 subscribers in Sandusky, Ohio and vicinity; and Monroe Cablevision, Inc., serving approximately 9,000 subscribers in Monroe, Michigan and vicinity.

rates fell almost precisely at the benchmark established by the Commission's initial rate regulations. At the same time, it has been consistently devoted to providing preeminent customer service in all respects. Long before regulation in the area of customer service was a serious prospect, and indeed, long before the industry promulgated its own service standards, Blade's three systems implemented and achieved rigorous customer service practices. These practices, which have been in place for years, meet or exceed the standards set forth in the Commission's recently adopted rules.

Second, and more germane to this proceeding, Blade has consistently practiced fiscal restraint in all of its operations. Blade avoided the temptation, rampant in the 1980s, to acquire new systems at inflated prices in outrageously leveraged transactions with little or no equity. This sound policy benefitted Blade's cable subscribers. Because of its prudence, Blade was under no economic compulsion to service an outlandish debt by raising rates beyond what is warranted by the services available to subscribers. As a consequence, Blade's cable rates remained low, and it readily made appropriate capital investments that have produced systems of paramount technical quality.

Blade is acutely aware of the problems caused by operators who acted irresponsibly in the acquisition frenzy of the 1980s and acquired cable properties at unjustified prices driven by speculation. These operators ignored the lesson that every child is taught by age five: you do not buy something you

cannot afford. As a result, these operators grossly overextended themselves in highly leveraged acquisitions, heedless of the constraints of debt-equity ratios. Indeed, one may speculate that without such unseemly conduct by a small number of operators, the Act and accompanying regulations would have been unnecessary. Blade shares the view of those commentators who express the undisputable position that consumers ought not have to bear, in the form of inflated service rates, the costs produced by genuinely excessive acquisition costs.

At the same time, the Commission's presumption that "where competition does not exist, premiums [acquisition costs above replacement value or net historical cost] reflect an expectation of monopoly earnings" (NPRM, ¶ 36) is unwarranted. Contrary to the Commission's view, an acquisition cost above replacement cost or net historical cost is not an unmistakable sign of monopolistic pursuit or fiscal irresponsibility. The economics of the industry are considerably more complex than is recognized by the Commission's simplistic tentative conclusion. NPRM, ¶ 40. Implementation of the Commission's tentative conclusion will drastically interfere with the industry's ability to raise capital at a time when Congress plainly wants cable operators to be able to raise capital to compete in a variety of communications fields.

Thus, Blade urges the Commission to adopt a responsible rule that permits reasonable acquisition costs to be recovered, but that does not reward irresponsible operators who engaged in

speculation and who acquired systems without equity. Such a rule will protect consumers and will not permit reckless operators to accrete net worth at the expense of their customers.

Respectfully submitted,  
BLADE COMMUNICATIONS, INC.

By: Fritz Byers  
Fritz Byers  
The Spitzer Building  
Suite 824  
Toledo, Ohio 43604  
Telephone: (419) 241-8013  
Telecopy: (419) 241-4215  
  
General Counsel  
Blade Communications, Inc.